

National Advisory Council on Minority Business Enterprise

Recommendations

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National Advisory Council on Minority Business Enterprise (“**NACMBE**”)

Recommendations

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Executive Summary

RECOMMENDATIONS TO ADVANCE MINORITY BUSINESS ENTERPRISE

The National Advisory Council on Minority Business Enterprise (“**NACMBE**” or the “**Council**”) was established in April 2010 to advise the Minority Business Development Agency (“**MBDA**”) and the Secretary of Commerce on policy issues affecting minority-owned businesses in the U.S. and to provide recommendations for supporting the growth of these businesses, both domestically and internationally. The Council’s collection of nationally recognized leaders from both private and non-profit organizations employed a data-driven approach to arrive at their conclusions, drawing on input from Minority Business Enterprise (“**MBE**”) owners gathered through focus groups and first-hand accounts, review of new data that the Council collected and analyzed from third party sources as well as available U.S. government data.

With an eye toward sustainable growth and job creation as well as leveraging existing public-private partnerships to enable a brighter future for all Americans, the Council puts a focus on the following five priorities:

- 1. Centralize and optimize minority business development efforts**
 - a. Consolidate currently fragmented government programs, functions and funding into one large, well-funded agency for minority business development with the authority and accountability for meaningful action and outcomes
 - b. Standardize the definition of minority business enterprise, and apply one universal certification process consistently under this new umbrella organization
- 2. Broker and sustain commercial relationships**
 - a. Address the single biggest issue identified by MBEs, namely the need for securing “the deal” (i.e., contractual relationships with larger enterprises) and being able to leverage that into a sustained revenue base. This is in contrast to short-term contract awards. One vehicle identified by MBEs is “commitment agreements” with large U.S. and non-U.S. companies
 - b. Expand supplier relationship management (“**SRM**”) programs to increase structured, formal commercial relationships that allow minority businesses to integrate themselves into customer supply chains
 - c. Grow regional ecosystems and existing forums to foster innovation and support minority business enterprise growth with a focus on high-growth industries
 - d. Leverage existing portals to develop and maintain a centralized, easily accessible minority business enterprise portal that connects minority-owned businesses with new customers
- 3. Expand access to capital for minority business owners**
 - a. Assess and improve bank lending processes in partnership with the Consumer Financial Protection Bureau
 - b. Enhance access to existing sources of capital that support business export activities (e.g., EXIM’s Global Credit Express Pilot Loan Program, etc.).
 - c. Establish a new MBE Academy (see 4(a) below) that offers access to comprehensive curricula, including education on the types, sources and uses of financing alternatives
 - d. Create or foster new sources of capital (e.g., through a newly established U.S. Enterprise Bond Fund for minority-owned businesses; through a tax credit in exchange for equity capital investments in minority-owned businesses, etc.)
- 4. Train minority-owned businesses in order to build capacity and provide opportunities**
 - a. Establish an MBE Academy and curricula under a public-private partnership that addresses specific needs and provides continuous learning

5. Build data infrastructure and other capabilities to support long-term policymaking

- a. Create a comprehensive, longitudinal database related to minority businesses to serve as the basis for analyzing characteristics and performance of minority-owned businesses
- b. Support the use of this database with entities or institutions with analytical capabilities

Each of these recommendations is further detailed in the following report.

MBEs: UNTAPPED POTENTIAL FOR ECONOMIC PROSPERITY

The U.S. has a proud history as a “melting pot,” and we pride ourselves on celebrating differences and cooperating toward common good. Increasingly, however, participation in capitalism and the free market economy occurs unevenly across populations. With today’s quickly shifting population, labor force and global landscape, we cannot afford to allow these trends to continue.

U.S. Census projections make it clear the country’s minority population will become the majority population by the middle of this century¹. The Bureau of Labor Statistics forecasts a dramatic increase in minority labor force participants between 2010 and 2020 – a 10.2 percent increase in Black workers, a 30.1 percent increase in Asian workers, and a 34 percent increase in Hispanic workers. Meanwhile, the number of White, non-Hispanic workers is expected to decline². As the rate of growth of the overall labor pool contracts, in part due to a slowing birth rate and aging baby boomer population, growth in immigration is expected to add 1.5 million U.S. residents annually and this will increase the country’s minority workforce³. With this trajectory, it is clear that robust participation among minority groups in the civilian labor force is critical for overall U.S. economic development and growth.

At the same time, the wealth gap between White and minority households widens. The Pew Research Center shows median income for White households is 18 to 20 times higher than that of Hispanic and Black households. In 2009, a typical White household held \$113,149 in net worth, while a Hispanic household held \$6,325 and a Black household held \$5,677. The disparity became more severe between 2005 and 2009, in part because home values represented a larger proportion of household wealth for minority households than for White households. Particularly for the Hispanic population, households have relatively higher representation in markets such as California, Arizona, Nevada and Florida that experienced especially sharp declines in home values⁴.

One key to addressing the wealth gap is focusing on business owners who account for nearly 40 percent of the total U.S. wealth yet represent roughly 10 percent of the workforce⁵. With focused support, thriving

¹ U.S. Census Bureau, “U.S. Census Bureau Projections Show a Slower Growing, Older, More Diverse Nation a Half Century from Now,” <http://www.census.gov/newsroom/releases/archives/population/cb12-243.html>.

² U.S. Department of Labor, Bureau of Labor Statistics, “Employment outlook 2010-2020: Overview of projections to 2020,” by Dixie Sommers and James C. Franklin, Monthly Labor Review (2012); 10-11, <http://www.bls.gov/opub/mlr/2012/01/art1full.pdf>.

³ U.S. Department of Labor, Bureau of Labor Statistics, “Employment outlook 2010-2020: Labor force projections to 2020: a more slowly growing workforce,” by Mitra Toossi, Monthly Labor Review (2012); 63, <http://www.bls.gov/opub/mlr/2012/01/art3full.pdf>.

⁴ Pew Research Center, *Twenty-to-One: Wealth Gaps Rise to Record Highs Between Whites, Blacks and Hispanics*, http://www.pewsocialtrends.org/files/2011/07/SDT-Wealth-Report_7-26-11_FINAL.pdf.

⁵ Robert W. Fairlie and Alicia Robb, “Financial Capital among Minority-Owned Businesses,” Oxford Handbooks Online, accessed November 13, 2013,

minority businesses can generate wealth for these business owners, and spur a virtuous cycle of ongoing investment in businesses that produce minority jobs. Small business is the largest source of employment in the U.S. economy⁶, and MBDA-targeted minority-owned businesses provide approximately 6 million U.S. jobs⁷. These are typically well-paying jobs⁸ held disproportionately by minorities themselves, and they are often located in disadvantaged communities⁹.

While this century has seen encouraging growth of minority business enterprise, this sector remains far below economic parity and represents a significant untapped opportunity. In 2012, minorities* were estimated to account for 37 percent of the U.S. population, yet they represented only 21 percent of the nation's total number of businesses in 2007¹⁰. More concerning is that businesses owned by minorities tend to be smaller and less successful than non-minority-owned businesses¹¹. In fact, the total economic output of minority businesses targeted by the MBDA – approximately \$1 trillion¹² – represents only 6.4 percent of total FY 2012 GDP¹³.

Without vibrant minority business enterprises that generate wealth for these business owners, the household wealth disparity and challenges to invest in businesses will persist – and perhaps worsen. The secondary and tertiary effects of these conditions create more pressure on a growing proportion of the U.S. population and a critical cohort of the civilian labor force. The mandate is clear: creating a path for broader, deeper and more significant participation by minority business enterprises in the growth of the overall U.S. economy is critical for the economy, and for the nation as a whole.

CHALLENGES FACING TODAY'S MINORITY BUSINESS OWNER

Focus groups conducted by the NACMBE and other research accessed by the Council reveal a number of challenges hampering the growth and success of minority-owned businesses.

Many minority business owners identified access to capital as the biggest obstacle to, and also the most influential factor for, growth. Lower levels of wealth among minority households make for less personal capital to invest in owned businesses, and minority business owners need a better understanding of bank funding practices and policies in today's bank lending environment. Additionally, research shows many

<http://www.oxfordhandbooks.com/view/10.1093/oxfordhb/9780195391244.001.0001/oxfordhb-9780195391244-e-23>, 688.

⁶ Leonard Greenhalgh and James H. Lowrey, *Minority Business Success: Refocusing on the American Dream* (Stanford, California: Stanford University Press, 2011), 15.

⁷ U.S. Department of Commerce, Minority Business Development Agency, *Fiscal Year 2012 Annual Performance Report*, <http://www.mbda.gov/sites/default/files/APR2012.pdf>, 1.

⁸ U.S. Department of Commerce, Minority Business Development Agency, *Disparities in Capital Access between Minority and Non-Minority-Owned Businesses: The Troubling Reality of Capital Limitations Faced by MBEs*, by Robert W. Fairlie, Ph. D. and Alicia M. Robb, Ph. D. 2010, 4.

⁹ Fairlie and Robb, "Financial Capital among Minority-Owned Businesses," 688.

* The definition applied here is the percentage of the population that is other than "White alone, not Hispanic or Latino" as presented by the U.S. Census Bureau.

¹⁰ U.S. Census Bureau, "State & County QuickFacts," <http://quickfacts.census.gov/qfd/states/00000.html>.

¹¹ U.S. Department of Commerce, Minority Business Development Agency, *Disparities in Capital Access*, 13-14.

¹² U.S. Department of Commerce, Minority Business Development Agency. *Minority-Owned Business Growth & Global Reach* (fact sheet), http://www.mbda.gov/sites/default/files/Minority-OwnedBusinessGrowthandGlobalReach_Final.pdf.

¹³ U.S. Department of Commerce, Bureau of Economic Analysis. "Gross Domestic Product: Fourth Quarter and Annual 2012 (Second Estimate)." http://bea.gov/newsreleases/national/gdp/2013/pdf/gdp4q12_2nd.pdf.

minorities experience lending discrimination, including being denied business loans more frequently or paying higher interest rates than non-minority business owners¹⁴.

Another critical struggle is in securing contracts. Minority business leaders cited a need for better networking and industry-specific forums to assist in the process and help target the right customers. Minority business owners appreciate government efforts applied toward securing contracts, but most recognize the need to build their businesses for success without government-assisted contracts.

Minority business owners also expressed great interest in assistance in building capacity and capabilities for their businesses – beyond capital assistance or assistance with contracts. Owners acknowledge that training, exposure and tools provide sustainable business education that serves fundamental needs. NACMBE focus group participants found strategic alliances with customers, peers and suppliers to be a critical enabler of growth. A primary example of this need for expanded support is found in promoting exports by minority businesses. As entrepreneurs who often hold the skills and disposition to facilitate international trade, develop relationships and sustain business ventures, this sector represents a sector ripe for exporting opportunity. References show a high incidence with which minority-owned businesses are exporting, yet the magnitude of minority business exports and the impact on the U.S. economy are modest today¹⁵. Minority business owners view exporting as attractive, but they need exposure to successful minority exporters, best practice education, resources and the opportunity to begin, or expand, export through partnerships with larger firms. This integrates with the SRM initiatives referenced above and requires a different type of support for minority businesses than is currently readily available.

Finally, with multiple agencies and efforts distributed across the U.S. government, business owners find government support confusing and somewhat inaccessible. For example, a large number of different certifications exist on federal, state and local levels. Significant financial and human resources are required to secure and maintain certifications, but minority business owners note varying levels of realized benefits.

DILUTED SUPPORT FOR MBEs: THE NEED FOR REFORM

Considering the urgent need to advance minority businesses and the challenges impeding their success, we must change our approach to supporting this critical sector of American business. Despite some progress over the past 10 years among minority business enterprises, the level of support, resources and focus on capacity- and capability-building is insufficient relative to the importance of minority business success. The U.S. government has made well-intentioned efforts in this area, but these efforts are modest in scale and scope, fragmented and lack coordination and clear accountability across its various departments and agencies.

Overlapping Government Agencies and Efforts

In today's government structure, there are a number of different agencies and departments that currently exist – with separate budgets and overlapping scope – engaged in the advancement of minority business in some way. The MBDA is the key agency involved in the development and support of minority-owned businesses. MBDA controls a limited budget of approximately \$30-million, and it is tasked with job creation, retention and business growth among minority-owned businesses¹⁶. Separately, with an approximate budget of approximately \$800 million, the U.S. Small Business Administration (“SBA”) is

¹⁴ U.S. Department of Commerce, Minority Business Development Agency, *Disparities in Capital Access*, 21.

¹⁵ U.S. Department of Commerce, Minority Business Development Agency, *Minority-Owned Firms Lead the Nation in Exporting* (fact sheet), <http://www.mbda.gov/sites/default/files/MinorityOwnedFirmsLeadExportsFinal.pdf>.

¹⁶ U.S. Department of Commerce, Minority Business Development Agency, *FY 2014 Budget in Brief*, http://www.mbda.gov/sites/default/files/MBDA_FY14_BudgetinBrief.pdf.

dedicated to helping Americans start, build and grow businesses of all kinds¹⁷. Minority-owned businesses benefit from various programs offered under the SBA, but they are not focused on those businesses, per se. Rather, minority-owned businesses are served by virtue of the fact that their smaller size puts them in the category of SBA-qualified target companies.

In addition, the Offices of Small and Disadvantaged Business Utilization (“OSDBU”) share information to help promote federal contracting with small businesses and to ensure compliance with associated laws and regulations. Separate OSDBU advocates exist in more than 30 federal executive agencies and departments, and an OSDBU Council exists separately to exchange best practices and discuss issues for small businesses¹⁸. On top of all this, new legislation and regulations contain mandates for additional isolated efforts in the U.S. government. For example, the Dodd–Frank Wall Street Reform and Consumer Protection Act mandated a new Office of Minority and Women Inclusion in each agency touched by legislation¹⁹. Each of these bodies serves a set of target companies that fall under different definitions of “small,” “minority” or “disadvantaged” businesses. In a number of cases, they simply serve “small” businesses, many of which happen to be minority owned.

Overlapping and unaligned efforts that touch minority-owned businesses have diminished the government’s effectiveness in areas where it is most needed. Responsibility or accountability for meeting participation goals and fostering minority business growth is balkanized and ultimately lacking. As established through research and NACMBE focus groups, access to capital, securing contracts, making inroads for business deals and sustaining commercial relationships persist as top challenges for minority business owners. Even with the knowledge of these major challenges, government efforts are disparate with the SBA concentrated on financing for small businesses and providing mentorship for small firms (only some of which are MBEs), and the MBDA and OSDBUs focused on contracting support.

The diversity of agencies and advocates can make it seem as if minority business interests are represented everywhere, but in fact, fragmentation has cut voices of minority business owners from relevant national efforts and public-private considerations. As an example, the President’s Council on Jobs and Competitiveness offered beneficial recommendations for building competitive advantage and American jobs, yet none addressed the potential of minority businesses, nor did they provide a strategy to include and involve minority business enterprises²⁰. Despite the higher incidence of export among minority-owned businesses, the President’s Export Council’s report lacked integration with the MBDA’s efforts and only referenced minority businesses briefly in the context of potential public-private educational outreach partnerships²¹.

One large, well-funded agency for minority business development would align individual, and currently disparate, efforts, better allocate resources for the greatest benefit, and facilitate appropriate advocacy and

¹⁷ U.S. Small Business Administration, *Fiscal Year 2014 Congressional Budget Justification and Fiscal Year 2012 Annual Performance Report*, <http://www.sba.gov/sites/default/files/files/1-508-Compliant-FY-2014-CBJ%20FY%202012%20APR.pdf>.

¹⁸ “Federal OSDBU Directors Interagency Council,” Federal Office of Small and Disadvantaged Business Utilization Directors Interagency Council, accessed November 13, 2013, <http://www.osdbu.gov>.

¹⁹ U.S. Congress, *Dodd–Frank Wall Street Reform and Consumer Protection Act*, by Sen. Chris Dodd and Rep. Barney Frank, H.R. 4173, Washington, D.C.: U.S. Government Printing Office, 2010, <http://www.gpo.gov/fdsys/pkg/BILLS-111hr4173enr/pdf/BILLS-111hr4173enr.pdf> (accessed November 13, 2013).

²⁰ President’s Council on Jobs and Competitiveness, *Road Map to Renewal: Invest in Our Future, Build on Our Strengths, Play to Win*, http://files.jobs-council.com/files/2012/01/JobCouncil_2011YearEndReport1.pdf.

²¹ President’s Export Council, *Compilation of the Council’s Recommendations during the First Term of the Obama Administration, 2010-2012*, http://trade.gov/pec/docs/PEC_Term_Report_2010-2012_12062012.pdf.

accountability. It would also create a resource base for data collection and coordination and interface with other existing agencies and efforts.

Expanded Focus on Capacity and Capabilities

Historically, government efforts have focused on facilitating contracts and helping to secure capital. While it is clear this assistance is still needed, minority business owners are calling for expanded support moving forward to include building capacity and capabilities in sectors in which the U.S. can build and sustain competitive advantages. Some of these sectors have already been identified through the President's Council on Jobs and Competitiveness and other work conducted by special committees and councils. Integration of a minority business agenda into business development efforts such as these is crucial, and leveraging other public-private partnerships will be essential to extending support. More comprehensive support in the form of training, networking, and best practice sharing will provide stronger minority businesses that can quickly adapt to changing business needs and growth opportunities.

Stature and Resource Base for MBEs Must Increase

The stature and the budget for minority business advancement must be increased significantly to properly expand the scope. The current level of focus, attention and resources provided – approximately \$30 million at the MBDA – is insufficient to create material impact for a population base that is more than one-third of the entire U.S. population²². Consolidation of different efforts in a number of areas around the U.S. government into one single agency would streamline efforts and allow for the reallocation of existing funding and resources toward a broader scope of support. The evaluation of the net impact of consolidation and concentration of resources would follow the gathering of the relevant data.

Helping minority businesses build capacity to address these challenges and adapt to a rapidly changing business environment is of utmost importance. America's entrepreneurs hold the key to maintaining the nation's competitive advantage, employing millions of Americans, and generating a significant portion of the country's earnings and wealth.

²² U.S. Census Bureau, "State & County QuickFacts."